HIGHWAYS REVOLVING FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1999

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6398
Fax: (306) 787-6383
Internet e-mail: info@auditor.sk.ca

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Highways Revolving Fund as at March 31, 1999 and the statements of operations and accumulated operating surplus/deficit and changes in accumulated net expenditure for the year then ended. The Revolving Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Revolving Fund as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Wayne Strelioff

Regina, Saskatchewan
November 30, 1999

Wayne Strelioff, CA
Provincial Auditor

Statement 1

HIGHWAYS REVOLVING FUND
BALANCE SHEET
As At March 31

	1999	1998
ASSETS		
Current:		
Accounts receivable	$ 6,309,614	$ 2,840,705
Inventories	3,067,139	3,004,311
	9,376,753	5,845,016
Non-current:		
Construction materials inventory (Note 5)	584,234	805,891
Construction, maintenance and other equipment (Note 6)	43,183,295	41,020,752
Capital lease vehicles (Note 7)	2,456,368	1,772,868
	46,223,897	43,599,511
	$ 55,600,650	$ 49,444,527
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	$ 1,357,622	$ 2,194,607
Current portion of obligation under capital leases (Note 8)	778,603	776,297
	2,136,225	2,970,904
Non-current liabilities:		
Long-term obligations under capital leases (Note 8)	1,123,693	1,287,506
Accumulated net expenditure (Statement 3)	56,766,968	49,426,871
	57,890,661	50,714,377
Fund equity:		
Accumulated operating (deficit)/surplus (Statement 2)	(4,426,236)	(4,240,754)
	$ 55,600,650	$ 49,444,527

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS/DEFICIT
For the Year Ended March 31

	1999 Budget	1999 Actual	1998 Actual
Revenue:			
Equipment Rental	$ 14,850,000	$ 14,892,186	$ 13,426,794
Custom Work	4,935,000	5,485,466	3,612,754
Store Sales & Labour	4,800,000	4,572,906	4,319,707
Total revenue	$ 24,585,000	$ 24,950,558	$ 21,359,255
Expenses:			
Repair	$ 4,400,000	$ 4,718,999	$ 5,054,998
Operating	4,150,000	4,519,561	4,829,486
Amortization	2,765,000	3,488,285	2,946,907
Custom Work	4,315,000	4,929,550	3,005,365
Store Sales & Labour	4,700,000	4,565,266	4,133,304
Direct Overheads	2,776,000	3,451,324	3,449,945
Direct expenses	$ 23,106,000	$ 25,672,985	$ 23,420,005
Gross margin	$ 1,479,000	$ (722,427)	$ (2,060,750)
General Overheads	$ 1,217,000	$ 1,335,244	$ 1,207,446
Net (Loss) from operations	$ 262,000	$ (2,057,671)	$ (3,268,196)
Net (Loss) Gain on Sale of Equipment	10,000	(227,811)	(85,194)
Recovery of Prior Years Deficits - General Revenue Fund	-	2,100,000	-
Net (Loss)	$ 272,000	$ (185,482)	$ (3,353,390)
Accumulated operating surplus/ (deficit), beginning of year	$ (823,982)	$ (4,240,754)	$ (887,364)
Accumulated operating surplus/ (deficit), end of year - to Statement 1	$ (551,982)	$ (4,426,236)	$ (4,240,754)

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF CHANGES IN ACCUMULATED NET EXPENDITURE
For the Year Ended March 31

	1999	1998
Financing (provided by) required for operating activities:		
Net loss after operating recovery	$ 185,482	$ 3,353,390
Items not affecting working capital		
- amortization (Note 9)	(3,488,285)	(2,946,907)
- gain/(loss) on disposal of capital assets	(227,811)	(85,194)
Net increase (decrease) in working capital items related to operations (Note 10)	4,368,722	871,716
	$ 838,108	$ 1,193,005
Financing (provided by) required for investing activities:		
Decrease in construction materials inventory	$ (221,657)	$ (57,614)
Purchase of equipment	6,410,932	3,718,942
Proceeds from sale of equipment	(337,726)	(503,414)
	$ 5,851,549	$ 3,157,914
Financing (provided by) required for financing activities:		
(Increase)/decrease in obligation under the capital lease	$ 650,440	$ 464,721
Net increase in financing requirements	$ 7,340,097	$ 4,815,640
Accumulated net expenditure, beginning of year	$ 49,426,871	$ 44,611,231
Accumulated net expenditure, end of year - to Statement 1	$ 56,766,968	$ 49,426,871

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 1999

1. Authority and Definition of Reporting Entity

The authority for this Revolving Fund was originally contained in Section 21 of *The Highways Act* and is continued under Section 7 of *The Department of Highways and Transportation Act, 1997*. The purpose of the Revolving Fund is to provide a system of accounting that accumulates the costs of equipment, materials and labour used in the provision of construction and maintenance services. These costs are charged back to the Department and other parties on an equitable basis.

2. Significant Accounting Policies

The financial statements are prepared in accordance with generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure and Note 10. The following accounting policies are considered significant:

a) Net Expenditure/(Recovery)

The net expenditure/(recovery) is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from net capital acquisitions, working capital changes and net cash flows from operations.

b) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) working capital advanced by the Minister of Finance as at March 31, 1982 to the Revolving Fund;

ii) the net expenditure/(recovery) for each fiscal year thereafter; and

iii) the book value of assets acquired at no charge from another government agency.

c) Inventories

Inventories are valued at the lower of original cost, as calculated on a moving average basis for each shop, and net realizable value.

d) Amortization

i) Power Equipment

Construction and maintenance equipment is amortized on a unit of use basis (hours or kms.). The amortization rate per unit of use for each item is calculated

to allocate the capital cost of that item, less residual value, over the life expectancy of the asset.

Tractors	3,000 to 10,400 hours
Motor Graders	16,000 to 18,000 hours
Light Trucks	Up to 180,000 kms
Heavy Trucks	3,750 to 15,000 hours
Trailers	2,000 to 12,000 hours
Construction Equipment	2,000 to 16,000 hours

ii) Sundry

Salt storage bins are amortized on a straight-line basis at a rate of 5% per year.

For all other sundry equipment, amortization is calculated as follows:

- Items costing $1,000 or more are amortized on the straight-line basis at a rate of 10% per year.
- Items costing less than $1,000 are amortized at a flat rate of $100 per year.

iii) Survey Equipment

For all survey equipment, amortization is calculated as follows:

- Items costing $1,000 or more are amortized on the straight-line basis at a rate of 10% per year.
- Items costing less than $1,000 are amortized at a flat rate of $100 per year.

iv) Repair Shop Equipment

For all repair shop equipment, amortization is calculated as follows:

- Items costing $1,000 or more are amortized on the straight-line basis at a rate of 10% per year.
- Items costing less than $1,000 are amortized at a flat rate of $100 per year.

v) Office Equipment and Furniture

For all office equipment and furniture, amortization is calculated as follows:

- Items costing $1,000 or more are amortized on the straight-line basis at a rate of 10% per year.
- Items costing less than $1,000 are amortized at a flat rate of $100 per year.

vi) Computer Systems

System Development costs are amortized on a straight-line basis at the rate of 20% per year.

vii) Computer Equipment

Computer Equipment is amortized on a straight-line basis at the rate of 25% per year.

viii) Capital Lease Vehicles

Capital lease vehicles are amortized on a straight-line basis over the term of the lease. The typical lease term for these units is 8 years. Major additions or modifications made to motor vehicle units leased from the SPMC (a related party) are treated as capital cost additions. The amortization rate per unit of use for each item is calculated to allocate the capital cost of that item. Amortization is calculated on the capital cost additions for a unit, on a straight-line basis over the remaining term of the lease for that unit.

e) Sales

Sales of the Revolving Fund include the following:

i) Construction Revenue

The Revolving Fund uses the percentage of completion method to recognize construction revenue on custom and other work whereby revenues are recognized as the work on the projects is completed. Amounts received before work is completed are reflected as unearned revenue.

ii) Equipment Rental Revenue

The rental rates charged by the Revolving Fund for use of its construction and maintenance equipment are calculated to recover the following Revolving Fund costs:

- amortization
- repair and overhaul
- operating costs of fuel, oil and licence registration and insurance fees; and
- administration costs of the stores and repair depots and Revolving Fund office.

Each of the foregoing components of the rental rate are reviewed annually, revised as required, and approved by Treasury Board.

f) Surcharges

Surcharges levied by the Revolving Fund pursuant to Treasury Board directives are required to be returned to the General Revenue Fund. Any unremitted surcharges are recorded as a liability.

g) Capital Lease Vehicles

Vehicles taken on lease terms which transfer substantially all of the benefits and risks of ownership to the Revolving Fund are accounted for as capital leases.

3. Authorized Financing

Subsection 7(6) of *The Department of Highways and Transportation Act, 1997* specifies that the maximum amount of accumulated net expenditure which may be outstanding at any time will be set by order of the Lieutenant Governor in Council. A maximum amount of $80,000,000 was established in April 1983 and was reduced to $55,000,000 in January 1994 by Order-in-Council. It was then increased by Order-in-Council to $60,000,000 in March 1999.

4. Disposition of Accumulated Operating Surplus or Deficit

In accordance with Section 7(6) of *The Department of Highways and Transportation Act, 1997*, the Minister shall pay to the General Revenue Fund all or any part of any surplus in the Revolving Fund that Treasury Board may direct. Treasury Board has specified that the maximum accumulated surplus/deficit for the Revolving Fund shall be $1,000,000. Treasury Board has also specified that if at the end of a fiscal year the accumulated surplus/deficit exceeds the maximum, then any surplus/deficit in excess of the maximum shall, as soon as possible after the close of the fiscal year, be paid to/from the General Revenue Fund.

However, if any deficit is in fact a subsidy and not a deficit due to business fluctuations, it must be recovered from the General Revenue Fund (Department of Highways and Transportation's appropriation) in the same year. The Department budgets for a subsidy to the Revolving Fund in the same year that the deficit is expected to occur.

5. Construction Materials Inventory

The construction materials inventory is an aggregate stockpile that will not be used in one year. The entire inventory has been classified as a non-current asset.

6. Construction, Maintenance and Other Equipment

Details of this equipment are as follows:

	1999			1998
	Cost	Accumulated Amortization	Net Book Value	Net book value
Power Equipment	$ 70,376,869	$ 31,757,483	$ 38,619,386	$ 37,481,641
Sundry Equipment	12,862,330	9,395,820	3,466,510	3,298,438
Survey Equipment	215,314	199,179	16,135	21,127
Repair Shop Equipment	1,149,198	1,038,106	111,092	107,986
Office Equipment and Furniture	78,910	19,800	59,110	76,493
Computer System	1,100,000	220,000	880,000	0
Computer Equipment	82,244	51,182	31,062	35,067
Total Capital Assets	$ 85,864,865	$ 42,681,570	$ 43,183,295	$ 41,020,752

Power, sundry and survey equipment, including expenditures which renovate or modify the equipment and result in a corresponding increase in the useful life of the equipment, are capitalized and recorded at cost or as determined in Note 2(b)(iii).

Amortization has been provided for in the amount of $ 2,941,962 in the current year (1998 - $2,449,074).

7. Capital Lease Vehicles

Details of these leased vehicles are as follows:

	1999			1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Capital Lease Vehicles	4,780,750	2,324,382	2,456,368	$ 1,772,868

Amortization has been provided for in the amount of $ 546,323 in the current year (1998 - $497,833).

8. Obligation under Capital Lease

The following is a schedule of future minimum lease payments under a capital lease with SPMC for non-maintenance vehicles together with the present balance of the obligation. The lease agreement effective April 1, 1987 and subsequently amended, allows vehicles to be leased for an initial term of four or six years with an annual bargain renewal option thereafter. The Revolving Fund estimates the average vehicle will be leased for eight years. Under the agreement, the Revolving Fund receives replacement vehicles on an ongoing basis from SPMC.

Year ended March 31:

2000	$ 778,603
2001	690,924
2002	531,199
2003	399,445
2004	260,615
2005 – 2007	196,186
Total minimum lease payments	$ 2,856,972
Less: Amount representing interest at rates 8% to 11%	542,303
Executory costs	412,373
	$ 1,902,296
Less: Amount due within one year	778,603
Long term lease obligations	$ 1,123,693

Interest of $272,543 (1998 - $ 218,105) was included in the expenditures of 1999.

9. Expenditures

The Revolving Fund's direct expenses and general expenses are classified as follows:

	1999	1998
Operating Expenses	$17,014,861	$14,417,182
Salaries and benefits	5,819,805	6,185,326
Amortization	3,488,285	2,946,907
Other	685,277	1,078,036
	$27,008,228	$24,627,451

10. Net Change in Working Capital Items Related to Operations

	1999	1998
Increase/(decrease) in accounts receivable	$ 3,468,909	$ 138,696
Increase/(decrease) in inventories	62,828	513,859
Decrease/(increase) in accounts payable	836,985	218,355
(Increase)/decrease in unearned revenue	-	806
	$ 4,368,722	$ 871,716

11. Related Party Transactions

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies, boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled with normal trade terms. These transactions, and amounts outstanding at year-end, are as follows:

Category (as per Financial Statements)	1999	1998
Sales (Department of Highways and Transportation)	$ 19,130,535	$ 17,649,002
Accounts Receivable (Department of Highways and Transportation)	3,804,113	127,226
Accounts Receivable (Transportation Partnership Fund)	0	488,011
Expenses (Saskatchewan Property Management Corporation)	1,039,077	963,982

In addition, the Revolving Fund pays Saskatchewan Education and Health tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

In accordance with established government policy, the Revolving Fund has not been charged with certain costs including occupancy, financing, certain information system support and certain administrative costs. These costs have been absorbed by various departmental appropriations and therefore, no provision for such costs is reflected in these financial statements.

12. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually.

13. Financial Instruments

The Revolving Fund's financial instruments include accounts receivable, accounts payable, and short term obligations under capital leases. Due to their immediate and short-term nature, the fair value of these instruments approximates the carrying value.

The Revolving Fund's financial instruments also include long term obligations under capital leases. The fair value of these obligations approximates the carrying value because the implicit rate of interest inherent in the leases approximates the market rate of interest.

The fair value of the accumulated net expenditure has been omitted because it is not practical to determine the fair value with sufficient reliability.

14. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when, information using year 2000 dates, is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Revolving

Fund's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Revolving Fund, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. Commitments

The Revolving Fund is committed to purchasing fixed assets in the form of construction and maintenance equipment and goods and services from various suppliers in the 1999-2000 fiscal year. The purchase price of these assets and goods is expected to be a total of $2,300,000. Purchases of these assets and goods will occur mainly in the first quarter of the year.

16. Amount Reported in the Public Accounts

The net income/(loss) of the Revolving Fund reported in the Public Accounts is the net income/(loss) of the Revolving Fund adjusted for the differences in accounting policies between the Revolving Fund and the General Revenue Fund.

	1999	1998
Net (Loss)	$ (185,482)	$ (3,353,390)
(Increase) in inventories	(62,828)	(456,245)
Decrease in construction materials inventory	221,657	57,614
(Increase) in construction, maintenance and other equipment	(2,162,543)	(738,873)
(Increase) in capital lease vehicles	(683,500)	(96,130)
Increase/(decrease) in obligation under capital lease vehicles	(161,507)	129,241
Balance Sheet variances between RES and Revolving Fund General Ledger and amounts not included in Public Accounts due to timing	373,448	(282,789)
Net financing (requirement) reported in public accounts	($ 2,660,755)	($ 4,740,572)

17. Comparative Figures

Certain 1998 balances have been reclassified to conform with the current years presentation.